Sun Oil Company Limited 1975 Annual Report

File

Sun Oil Company Limited
(Incorporated 1923 under the laws of Canada)

Head Office
20 Eglinton Avenue West
Toronto, Ontario M4R 1K8

Products Group
56 Wellesley Street West
Toronto, Ontario M5S 2S4

Exploration and Production Group
500 4th Avenue S.W.
Calgary, Alberta T2P 2V5

During 1975, activity continued in the Arctic Islands where an extensive seismic survey is being conducted.

Front Cover — The nation's deteriorating ability to supply its oil and gas needs from domestic sources is spotlighted by this depiction of the energy gap. The top arm symbolizes growing demand for oil and gas — the lower arm, the falling producibility of domestic established reserves. Unless exploration and development expand substantially in Canada the gap will grow even wider and it will become more and more necessary to fill it with potentially insecure foreign sources.

Directors
Brian T. Abbott, *Toronto*
Kenneth F. Heddon, *Toronto*
Ross A. Hennigar, *Toronto*
Gordon E. Hillhouse, *St. Davids, Pa.**
Ardagh S. Kingsmill, *Toronto*
Joseph R. Layton, *St. Davids, Pa.**
William R. Loar, *Calgary**
Dudley M. McGeer, *Toronto*
Harry S. Ostrander, *Toronto*

Toronto and Calgary-based directors (except Ardagh S. Kingsmill) are employees of the Company.

**denotes other than Canadian citizen*

Principal Officers
Kenneth F. Heddon
Chairman of the Board and Chief Executive Officer

Ross A. Hennigar
President and Chief Operating Officer

Howard B. Maxwell
Vice President and Assistant to Chairman

Harry S. Ostrander
Group Vice President, Products

George H. Brereton
Vice President, Marketing

William R. Loar*
Group Vice President, Exploration and Production

F. Hugh Latimer*
Vice President, Exploration

Brian T. Abbott
Vice President, Logistics

Dudley M. McGeer
Vice President, Administration

Anthony A. L. Wright
Secretary and Treasurer

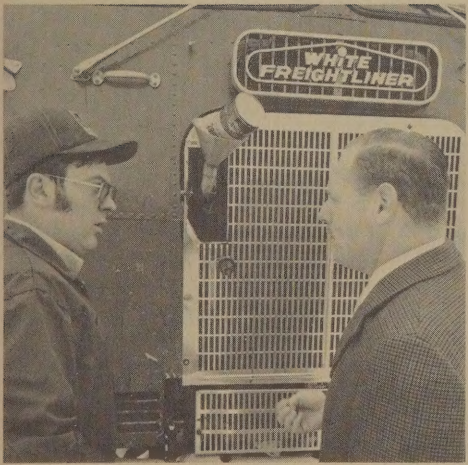
**denotes other than Canadian citizen*

General Counsel
Tilley, Carson & Findlay
44 King St. West
Toronto, Ontario

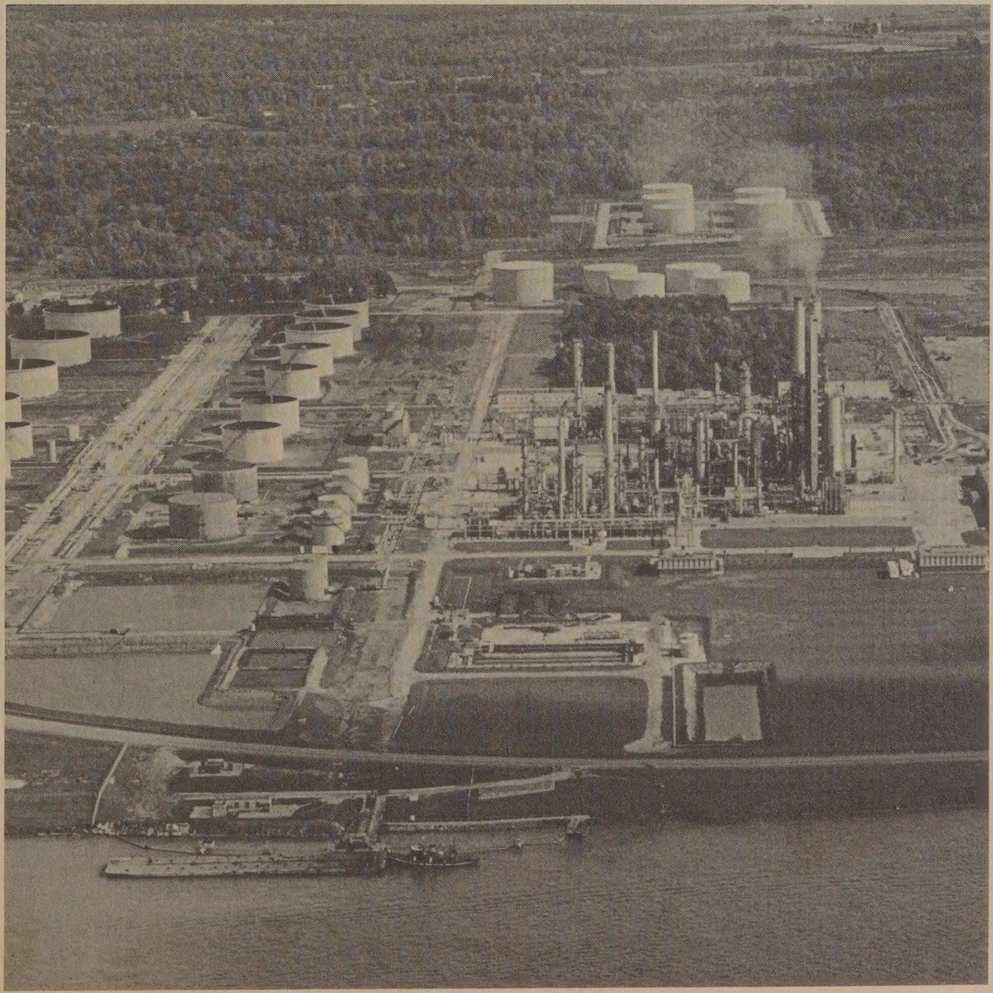
Vous pouvez vous procurer un exemplaire en Français de ce Rapport financier auprès de notre service des Relations Extérieures. Ecrivez à: Public Affairs Department, Sun Oil Company Limited, 20 Eglinton Avenue West, Toronto, Ontario M4R 1K8.

Highlights of the year

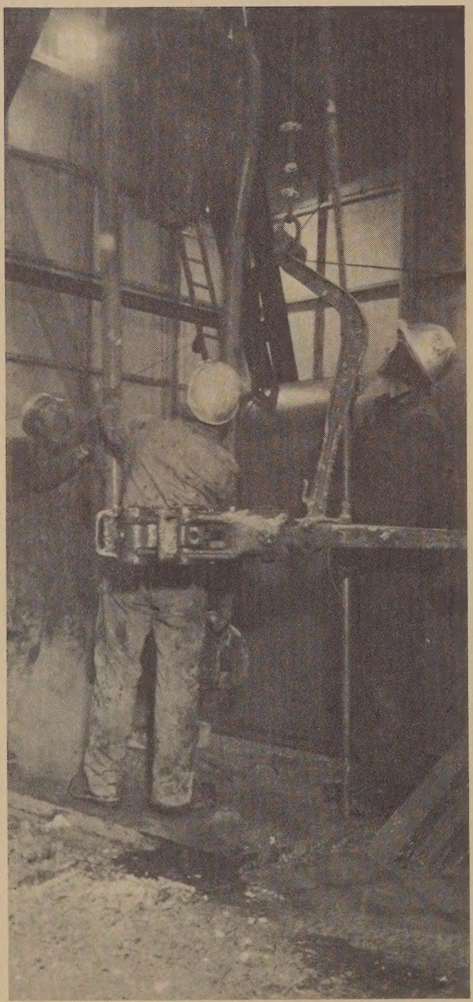
	1975	1974
Financial	(Dollars in thousands)	
Sales and other operating revenues	**315,018**	268,838
Profit before extraordinary item	**12,396**	22,068
Net profit	**12,396**	24,273
Cash flow from operations	**42,504**	55,974
Capital expenditures	**70,277**	76,885
Total assets	**491,118**	418,419
Return on shareholders' average equity (based on net profit)	**4.4%**	9.8%
Operating		
Refined products sold (thousands of barrels)	**25,659**	23,779
Crude oil refined (thousands of barrels)	**30,397**	25,333
Net crude oil and condensate produced (thousands of barrels)	**3,570**	4,232
Net raw natural gas produced (millions of cubic feet)	**11,069**	12,341



Sun introduced a new extended-drain diesel oil in 1975. Recommended oil change can now be as long as 30,000 miles, depending on service. Previous normal drain intervals ranged from 6,000 to 12,000 miles. Oil is being used regularly in company trucks.



The company's refinery at Sarnia, Ontario processed over 30 million barrels of crude oil in 1975.



Crew works on rig floor during drilling of northern well. Drilling is round-the-clock operation.

In 1975, Sun Oil Company Limited completed its first year of fully integrated operations following the 1974 reorganization. In that reorganization, Sunoco E&P Limited, a sister company which had held responsibility for exploration and development in the frontier areas of Canada, was merged into Sun Oil Company Limited. While the period was a difficult one, the previously separate entities merged smoothly into the new organization. At the same time, good progress was recorded in a number of other areas.

The company was, however, unable to sustain the level of earnings achieved in 1974 as net profit for the year slumped from $24,273,000 to $12,396,000. A number of factors were responsible. Refined product margins deteriorated under the double impact of excessive supplies overhanging Quebec and Ontario markets and the continuing pressure of inflation on expenses. In addition, there was the long extension by the Ontario government of the federal government freeze on product prices which followed the increase in domestic crude oil prices on July 1. Other factors included the non-recurrence in 1975 of certain substantial 1974 export sales and the extraordinary gain.

The drop in earnings resulted in a reduction in the return on shareholders' average equity to 4.4 per cent compared to 9.8 per cent in 1974. The return continued to be below the level for Canadian industry in general. The demands of the company's substantial capital program coupled with the reduced flow of funds from operations made it necessary for the company to seek additional financing during the year. Accordingly, in the latter part of the year, bank financing was arranged in the form of a $30 million loan which will fall due in 1981.

Despite the lower earnings, progress was made toward strengthening the company's posture for the years ahead. A significant event of 1975 was an oil and natural gas discovery at the Garry P-04 well in the Mackenzie Delta. Testing of the 11,000-foot well, which cost over $6.0 million, indicated two main hydrocarbon bearing zones, one below 9,600 feet and the other at 5,100 feet. A total net hydrocarbon bearing section of 330 feet was indicated with 265 feet gas bearing. During tests, flow rates of up to 14 million cubic feet per day with condensate were recorded from the zone below 9,600 feet. From the zone at 5,100 feet, flow rates up to 17 million cubic feet per day were recorded. In the upper section, 65 feet of oil bearing sand were encountered which flowed at rates up to 300 barrels per hour on short tests. Sun's ultimate ownership interest will depend on future drilling and various other contractual requirements.

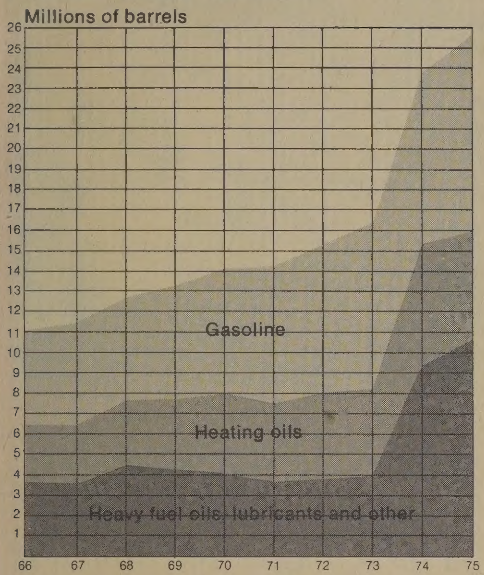
In the Arctic Islands, Sun participated in the drilling of two wells; one was abandoned and the other extended the field limits of a previous discovery. The latter was drilled as a step-out to the Drake Point gas discovery. The well extends the Drake Point field eight miles offshore and to the east of Melville Island. It was tested at various flow rates up to 10 million cubic feet per day. The well was drilled in 465 feet of water from an artificial ice platform. Sun's interest is 25 per cent.

As part of its Arctic Islands program, Sun is operator for an industry group conducting a seismic survey over 38 million acres in the Sverdrup Basin. In 1975, 3,260 miles of new seismic lines were shot. Cost of the three-year program is estimated at $45 million with the company's share being about 29 per cent.

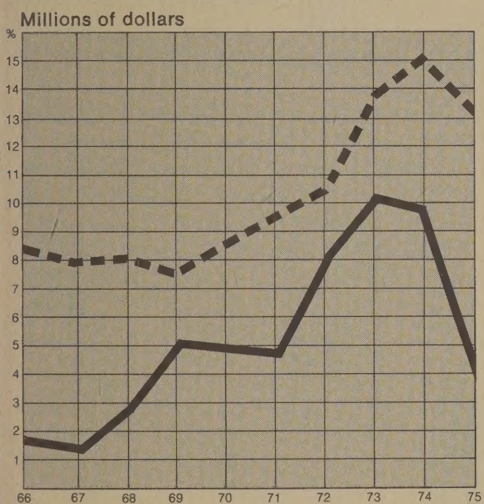
Sun also heads a team of nine companies in developing an ice-cutting semi-submersible drilling vessel. A model of the cutter has been successfully ice tested and further work is planned.

Off the coast of Labrador, the company, as a member of the Eastcan Group, took part in the drilling of four

PRODUCT SALES VOLUMES



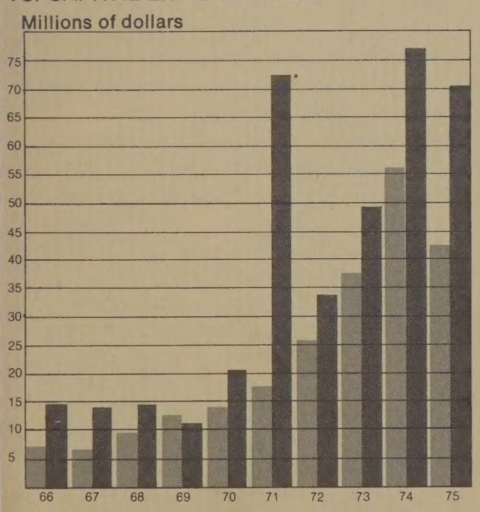
RETURN* ON SHAREHOLDERS' AVERAGE EQUITY FOR THE COMPANY COMPARED WITH CANADIAN INDUSTRY



Sun Oil Company Limited %
Canadian Industry %

*Based on net profit.

CASH FLOW FROM OPERATIONS VS. CAPITAL EXPENDITURES



Cash Flow
Capital Expenditures

*Note: 1971 purchases include $35,900,000 exploration and production properties, plant and equipment purchased from the parent company in consideration for the issue of Sun Oil Company Limited common shares.

exploratory wildcats, two of which were dry. During the 1976 season the third well will be tested and drilling will be resumed on the fourth. The group holding the acreage has drilled eight wells so far with two of them indicating potentially commercial gas discoveries. Sun's interest is 10 per cent.

In the western provinces, development drilling was down from 1974 levels as the company participated in 46 gross well completions. Purchase arrangements for three producing properties were completed. Proven net crude oil and natural gas liquids reserves rose from 64 million barrels at the end of 1974 to 66 million barrels at the end of 1975. Proven net natural gas reserves increased to 374 billion cubic feet. The increases in reserves are attributable to such activities as development drilling, plant construction, acquisitions and reclassification of reserves. Sun's proven reserves exclude potential reserves and thus do not include heavy oil and frontier reserves.

Work continued on expanding the 225-mile Albersun natural gas pipeline between Atmore and Fort McMurray. Planned capacity is 125 million cubic feet daily up from the original capacity of 35 million cubic feet. The expanded system will deliver gas into the Alberta Gas Trunk Line system and also continue to serve markets in northeastern Alberta.

Construction began in July on a gas processing plant near Rosevear, Alberta. Planned capacity is 30 million cubic feet of raw gas per day. Sun has a 50 per cent interest in the project which has a total estimated cost of about $11 million.

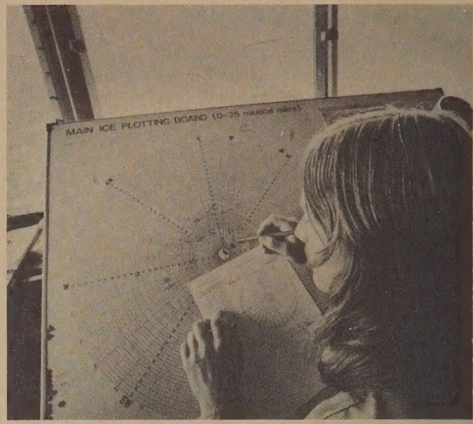
Despite an increase of almost eight per cent in sales volumes, refined product operations were severely affected by several events in 1975, among them reduced margins and the government imposed price freezes mentioned earlier. In Ontario, for 134 days, the company was, in effect, compelled to buy crude oil at $8.00 per barrel and sell it at $6.50 per barrel. Decreasing consumer demand for high octane gasoline caused super premium blends Sunoco 250 and 260 to be discontinued in 1975. Self-serve gasoline retailing continued to attract the public's interest and the number of company self-serve outlets was increased to 140 compared to 70 at the end of 1974. Despite the increase, the vast majority of Sunoco stations are operated by independent dealers. The company converted one of its major outlets in Toronto to metric measurement early in the year. Near year-end a metric self-serve outlet was established in Montreal. Sun was the first company in Canada to bring metric measurement to service station customers.

Construction of a petrochemical plant at the Sarnia refinery began in the spring of 1975. This unit, estimated to cost $26 million, is scheduled to be on stream in the summer of 1976. It will manufacture benzene, toluene and xylene.

Problems and Issues

The company has spent some $120 milion in the frontier regions since becoming active there in 1968. These have been high risk expenditures to prove up needed additional reserves of oil and gas. A well drilled in the frontier can easily cost in excess of $10 million and result in a dry hole. In addition, lead times are long. For example, Sun has an indicated oil and gas discovery at its Garry P-04 location. It will be the early eighties before production from that well will be generating revenue for the company. Gas and oil production will require construction of a pipeline and production facilities. There are questions of native land rights and protection of the fragile northern environment. Beyond these issues lies the pressing need for appropriate regulations from the federal government with respect to future work obligations, and government take. These and other questions make present investment by the industry in the frontier areas a matter largely of faith.

Another issue of major concern to the company is price freezes. The 90-day product price freeze imposed by the Government of Ontario from August 15 followed the expiry of the 45-day fed-



A

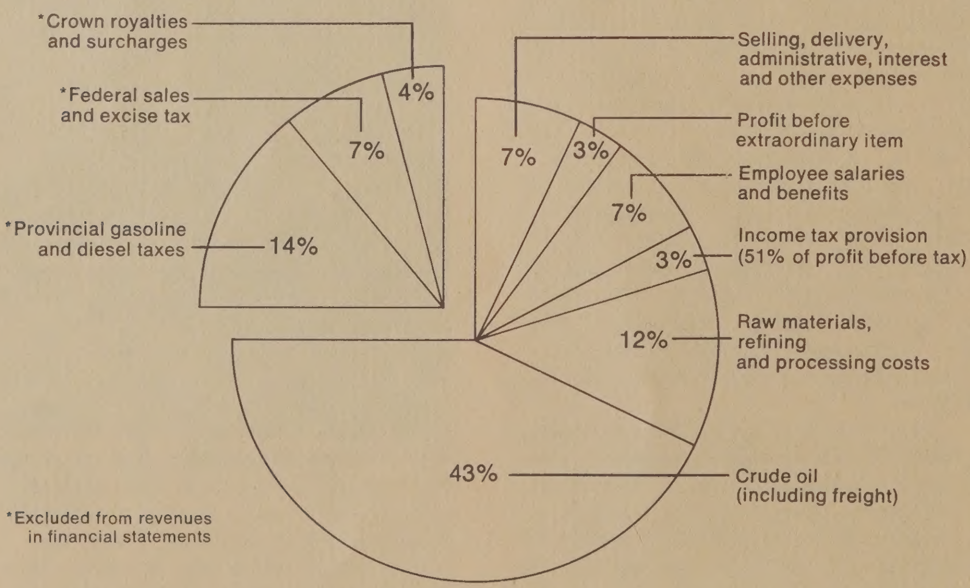
PAYMENTS TO GOVERNMENT OTHER THAN INCOME TAXES

(Thousands of dollars)

	Crown royalties and surcharges	Mineral lease rentals	Production and related taxes	Federal sales and excise taxes	Real estate and other taxes	TOTAL
British Columbia	1,340	109	32			1,481
Alberta	7,219	301	830			8,350
Saskatchewan	4,482	33	244			4,759
Manitoba	303		31			334
Ontario					2,440	2,440
Quebec					841	841
Federal		15	4	28,718		28,737
Total	13,344	458	1,141	28,718	3,281	46,942

The above table does not include amounts collected by Sun for government.
For example in 1975 Sun collected and remitted $60 million in Ontario and Quebec gasoline and diesel fuel taxes.

WHERE OUR REVENUES GO



eral freeze. In announcing the freeze, the province simultaneously established a Royal Commission on Petroleum Products Pricing to investigate, among other things, petroleum product prices in Ontario and determine how long such prices should be frozen following an increase in crude oil prices. Commission hearings were held in two phases with Phase II beginning late in 1975. Sun appeared during both phases.

The combined Ontario and federal freezes cost Sun some $9 million in lost revenues and inhibited its ability to carry out all its planned programs. In an effort to generate some much needed dialogue between the industry and the public at large, the company prepared a highly detailed Phase II presentation to the Royal Commission. It made a clear and frank disclosure of Sun's operations, including scope, ownership, management, policies and profitability. The disclosure was made in the hope that it would assist in promoting a clearer understanding by both the industry and the community of the issues involved and to help those with differing viewpoints to increase their confidence in and respect for each other. The company pointed out in its submission that the Ontario consumer, as a member of the Canadian public, must make a decision as to whether he wants new sources of domestic oil and gas developed and, if so, to what extent. Development will be jeopardized by inconsistent or inequitable provincial petroleum product price regulations.

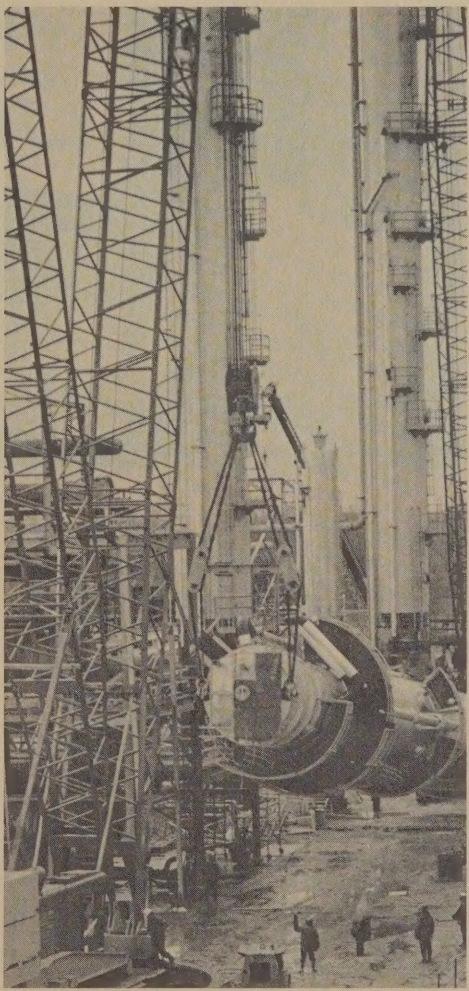
In this context the presentation discussed the oil industry's ability to finance the costly and extensive exploration and development programs required to bring future supplies of oil and gas to market. It noted that the oil industry must raise financing through the debt and equity markets. Its ability to do this will be influenced by various factors, one of the most important being public acceptance that profits and cash flow will be allowed to increase to a point where they attract equity investors and make it possible to increase debt load. The submission

B

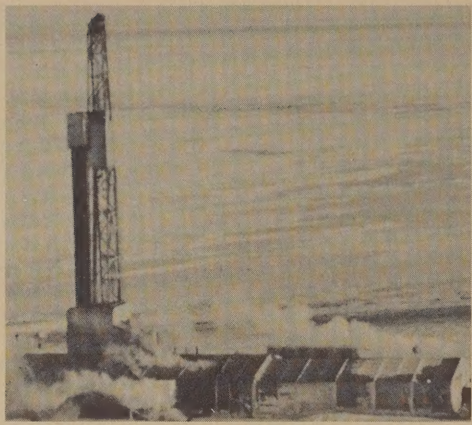
A. Drilling off Labrador demands constant vigilance by ship's crew against icebergs. This board helps plot their movement.

B. The Drillship Pelican was used for drilling off the coast of Labrador by Eastcan Group. Sun has a 10 per cent interest.

C. Construction began at Sarnia on company's first petrochemical plant. It is expected to be on stream by the summer of 1976.



C



Garry P-04 well in the Mackenzie Delta discovered oil and natural gas late in 1975.

Two service stations,one in Toronto, one in Montreal, were converted to metric measure in 1975. Sun is the first in Canada to bring metric measure to its customers.

pointed out that the present investment climate for the Canadian oil and gas industry is relatively poor and must be improved if the industry is to obtain the funds needed.

An improvement in the investment climate would be a significant step toward a lessening of the growing dependence on potentially insecure foreign sources of crude oil. It would allow increased exploration and development of new frontier sources and further development of oil sands, all of which could fill the widening gap between demand for crude oil and natural gas and present conventional established reserves.

The company's concern with this widening gap was expressed in the submission and is reflected symbolically on the cover of this annual report. A report published last year by the National Energy Board forecast that current crude oil consumption of 1,750,000 barrels daily would almost double by 1994. Simultaneously, producibility of present conventional established reserves would fall from the present level of about 1,750,000 barrels daily to less than 250,000 barrels in 1994, resulting in a deficiency of more than 3,000,000 barrels per day.

During the same period, natural gas consumption would rise 134 per cent while deliverability from present conventional established areas would fall from 7.4 billion cubic feet per day to about 2 billion cubic feet. The daily deficiency in gas supply would be about 8.9 billion cubic feet.

At the time of preparing this annual report the Royal Commission on Petroleum Products Pricing had not published its findings with respect to Phase II of its hearings. However, shortly after year-end it issued a supplement to its report on Phase I. In the supplement, the Commission concluded that on the basis of economic analysis and data collected, a 30 to 40-day freeze rather than 134 days would have been appropriate in the circumstances existing in Ontario at the time the freeze was imposed.

The Year Ahead

Looking to 1976, the company's capital expenditures will be down substantially from the 1975 level. The cutback reflects the lower profit and reduced cash flow suffered in 1975 as well as the expectation that these same trends will continue in 1976.

On the positive side, with the completion of the BTX plant at Sarnia, petrochemical sales will provide an added revenue stream in 1976 and future years. The company will also be able to serve new markets and have the potential to participate in other petrochemical developments.

Despite the reduction in capital spending, it is planned to continue exporatory drilling and other activities in the frontier areas where Sun has some 65 million gross acres. The programs will be carried out commensurate with the funds available. The acreage is located principally in the Arctic Islands, the Mackenzie Delta/Beaufort Sea and offshore Labrador and it represents a major potential source of future company growth and development.

Activities planned for the Arctic Islands in the coming year include a continuation of the three-year seismic survey mentioned earlier. The company also holds an 18.55 per cent interest in the Panarctic Tenn Sun Dome Jackson G-16 well which was begun in early February, 1976. This well is being drilled off the southwest coast of Ellef Ringnes Island.

In the Mackenzie Delta/Beaufort Sea, the company will commence another well in 1976. The location of this test has yet to be determined. The well is part of a program to earn additional acreage in the area. That program commenced with the unsuccessful Unark and Pelly tests, both drilled from manmade islands in the Beaufort Sea during the winter of 1974-75, and includes the Garry discovery described earlier. Sun's present holdings in the area total some 1.8 million gross acres.

Off the coast of Labrador, the company has 10 per cent interest in some 28 million acres. A number of new wells are planned for this year's drilling season with at least two drilling units being used. The hostile environment permits drilling only throughout the summer season.

February 27, 1976

Performance
for the year ended December 31

Sun Oil Company Limited
and Subsidiaries

	1975	1974
Revenues	(Dollars in thousands)	
Sales and other operating	**$315,018**	$268,838
Investment	**559**	1,967
	315,577	270,805
Expenses		
Cost of products	**231,190**	182,883
Depletion of oil and gas properties	**7,981**	6,002
Selling, general and administrative	**49,318**	39,517
Interest (note 3)	**1,950**	482
Income tax provision	**12,742**	19,853
	303,181	248,737
Profit before extraordinary item	**12,396**	22,068
Extraordinary item (note 4)	**—**	2,205
Net profit for the year	**$ 12,396**	$ 24,273

See accompanying notes

Auditors' report

The shareholders
Sun Oil Company Limited

We have examined the consolidated statement of financial position of Sun Oil Company Limited and subsidiaries as at December 31, 1975, and the consolidated statements of performance and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Ontario, January 29, 1976.

Financial position
as at December 31

Sun Oil Company Limited
and Subsidiaries

	1975	1974
Cash and items convertible to cash within one year	(Dollars in thousands)	
Cash and temporary investments	**$ 5,796**	$ 275
Amounts due from: customers	**51,238**	39,126
affiliated companies	**1,266**	18,433
others	**10,444**	23,897
Inventories (note 5)	**89,322**	53,454
	158,066	135,185
Deduct: Liabilities payable within one year		
Short-term borrowings	**20,467**	18,400
Amounts due to: suppliers	**54,957**	34,760
affiliated companies	**16,245**	19,982
Export, sales and other taxes	**10,234**	11,472
Current portion of long-term borrowings	**99**	202
	102,002	84,816
Working capital	**56,064**	50,369
Add: Other assets		
Properties, plant and equipment (note 6)		
Exploration and production	**171,943**	138,598
Refining	**62,361**	53,285
Transportation and distribution	**39,723**	33,969
Marketing	**51,163**	49,703
	325,190	275,555
Investments at cost	**2,396**	4,123
Expenditures for the benefit of future years	**5,466**	3,556
	333,052	283,234
Working capital plus other assets	**389,116**	333,603
Deduct: Liabilities payable beyond one year		
Deferred revenues	**1,247**	944
Long-term borrowings (note 7)	**30,157**	196
Deferred income taxes	**59,110**	46,965
Portion of subsidiary's equity not owned by Sun	**8,796**	8,088
	99,310	56,193
Shareholders' equity	**$289,806**	$277,410

Shareholders' equity consists of:		
Common shares (note 8)	**$188,245**	$188,245
Profits retained in the business		
Beginning of year	**89,165**	64,892
Net profit for the year	**12,396**	24,273
End of year	**101,561**	89,165
	$289,806	$277,410

See accompanying notes

On behalf of the Board

K. F. HEDDON Director D. M. McGEER Director

Changes in financial position
for the year ended December 31

Sun Oil Company Limited
and Subsidiaries

	1975	1974
	(Dollars in thousands)	
Source of working capital		
Profit before extraordinary item	**$ 12,396**	$ 22,068
Add back (deduct) items not affecting working capital:		
Extraordinary item	**—**	2,205
Depreciation	**9,365**	7,951
Depletion	**7,981**	6,002
Amortization of expenditures for the benefit of future years	**1,094**	1,599
Deferred income taxes	**12,145**	16,794
(Gain) on disposals of properties, plant and equipment	**(477)**	(645)
	42,504	55,974
Disposals of properties, plant and equipment	**3,773**	2,750
Investments	**2,441**	4,477
Increase in deferred revenues	**303**	944
Long-term borrowings	**30,058**	—
Increase in portion of subsidiary's equity not owned by Sun	**708**	2,400
Issue of Shares	**—**	32,665
Additions to working capital	**79,787**	99,210
Use of working capital		
Purchases of properties, plant and equipment:		
Exploration and production	**44,198**	35,952
Refining	**11,766**	19,073
Transportation and distribution	**8,279**	14,269
Marketing	**6,034**	7,591
Investments	**714**	237
Expenses for the benefit of future years	**3,004**	1,939
Borrowings maturing within one year	**97**	197
Reductions in working capital	**74,092**	79,258
Net increase in working capital	**5,695**	19,952
Working capital — beginning of year	**50,369**	30,417
Working capital — end of year	**$ 56,064**	$ 50,369
Analysis of the change in working capital		
Cash and temporary investments	**$ 5,521**	$ (12,128)
Amounts due from customers, affiliated companies and others	**(18,508)**	44,890
Inventories	**35,868**	28,263
Short-term borrowings	**(2,067)**	(18,400)
Amounts due to suppliers and affiliated companies	**(16,460)**	(23,745)
Export, sales and other taxes	**1,238**	(6,113)
Current portion of long-term borrowings	**103**	7,185
Net increase in working capital	**$ 5,695**	$ 19,952

See accompanying notes

1. Summary of significant accounting policies

(a) Consolidation —
The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

(b) Inventories —
Imported crude oil and refined products are valued at cost, using the first in first out pricing method, which does not exceed net realizable value. Canadian crude oil is valued, using the first in first out pricing method, at posted prices prevailing at time of production. Refined products derived from Canadian crude oil are based on these values.

Materials and supplies are valued at cost, which does not exceed net realizable value.

(c) Exploration and production expense, full cost method — All costs incurred in finding oil and gas reserves, including leasehold acquisition and retention costs, are capitalized. Such costs are charged against operations by a provision for depletion, calculated on a unit-of-production basis. Tangible equipment is capitalized and depreciated.

Operating costs of current production are charged directly to expense as incurred, as are overhead, general and administrative costs.

(d) Depreciation and depletion —
Plant and equipment: depreciation is based on the average estimated useful lives of the major asset categories, and charged against revenues on a straight line basis.

Oil and gas properties: depletion is charged against revenues in the ratio of units produced to estimated reserves.

(e) Income tax provision —
Some costs and revenues may by law be deducted or added in calculating taxable income in years later or earlier than actually recorded in the financial statements. The "Income tax provision" is based upon the revenues and expenses actually recorded, but differs from taxes actually paid or payable. In the long run these differences between taxes actually payable and amounts expensed in respect of taxes would tend to disappear, but year by year there are imbalances, shown in the Statement of Financial Position as "Deferred income taxes".

2. Changes in statement classification

The 1974 figures have been re-classified in some instances to conform with 1975 groupings.

3. Interest expense

	1975	1974
Short-term	$1,751,000	$197,000
Long-term	199,000	285,000
	$1,950,000	$482,000

4. Extraordinary item

Tax deductions to which the company became entitled in 1971, arising from expenditures incurred by the parent company, were exhausted in 1974. The 1974 extraordinary item previously reported as $4,155,000 has been retroactively adjusted to reflect an offsetting amount of $1,950,000 which arose as a result of the merger with Sunoco E&P Limited in 1974. Opening retained earnings have been adjusted by a like amount.

5. Inventories

	1975	1974
Crude oil	$45,435,000	$19,819,000
Refined products	34,171,000	25,743,000
Materials and supplies	9,716,000	7,892,000
	$89,322,000	$53,454,000

6. Properties, plant and equipment

	Properties, plant and equipment at cost	Accumulated depreciation and depletion	Net values
Exploration and production			
Plant and equipment	$ 22,863,000	$ 3,952,000	$ 18,911,000
Oil and gas properties	181,793,000	28,761,000	153,032,000
Refining	91,845,000	29,484,000	62,361,000
Transportation and distribution	56,345,000	16,622,000	39,723,000
Marketing	77,635,000	26,472,000	51,163,000
	$430,481,000	$105,291,000	$325,190,000

7. Loans

	1975	1974
Bank loan due January 30, 1981, bearing interest based on the lending bank's prime rate	$30,000,000	$ —
Mortgages and notes	157,000	196,000
	$30,157,000	$ 196,000

8. Common shares

Authorized —
20,000 common shares of no par value

Issued and fully paid —
15,062 shares, all of which are owned by Sun Oil Company.

9. Commitments and contingencies

(a) The company is constructing a plant at Sarnia to produce benzene, toluene and xylene. The amount appropriated for this project is $26,700,000 of which $10,819,000 had been incurred by December 31, 1975.

(b) The unfunded liability for past service costs in connection with the employees' pension plan at December 31, 1975 is estimated to be $9,300,000 (based on an independent actuarial valuation as of January 1, 1975). This amount, with interest at 5%, will be paid over the next fourteen years.

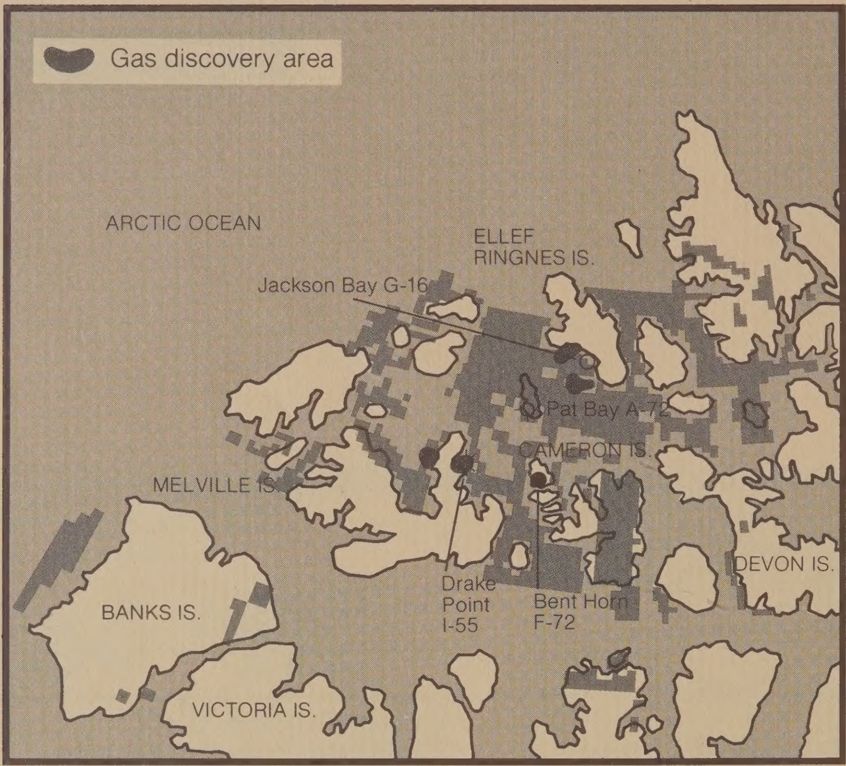
(c) Minimum annual rental charges under leases and commitments expiring more than three years after the year-end approximate $2,000,000.

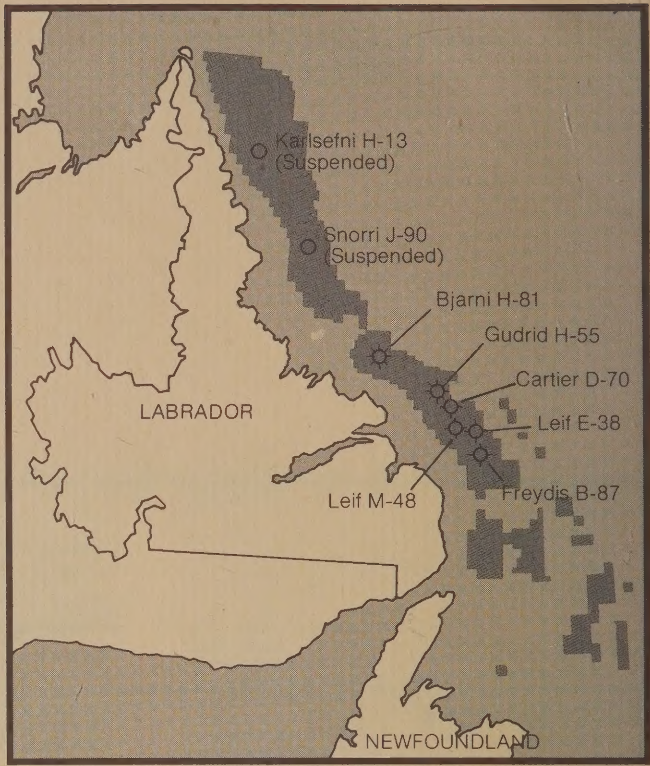
10. Directors and officers

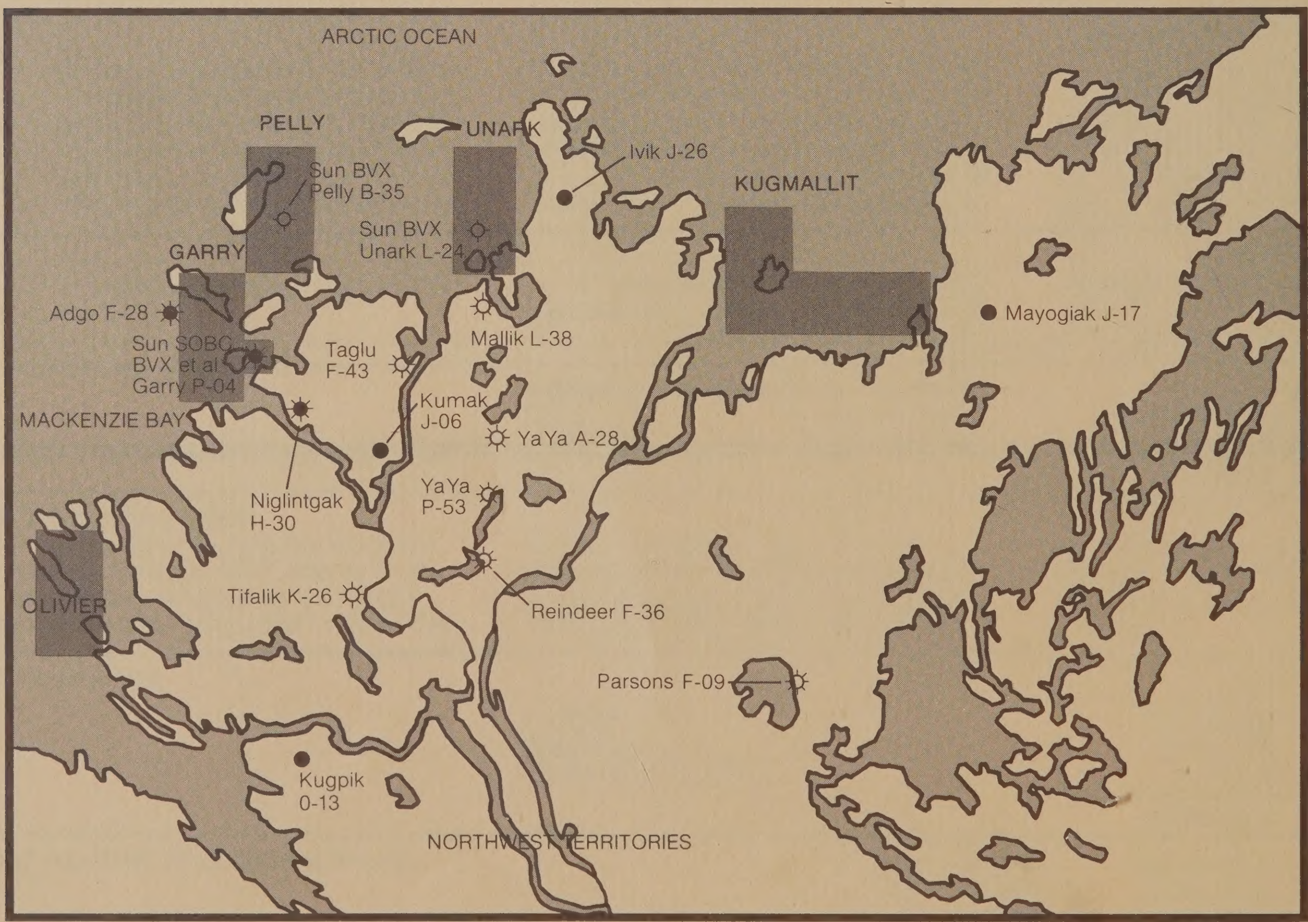
The ten persons who were directors of the company during all or part of 1975 received no remuneration as such. The fourteen officers of the company during 1975 included seven who were also directors. Remuneration of officers aggregated $678,800.

11. Anti-Inflation Act

The company is subject to the Anti-Inflation Act and the regulations established thereunder.







○ Location (Sun interest)
● Well with oil potential
☼ Well with gas potential
✹ Well with oil & gas potential
-○- Dry & abandoned well (Sun interest)
■ Acreage in which Sun has an interest or has an option to earn an interest.

Parent Company

Sun Oil Company,
St. Davids, Pennsylvania

Subsidiary Companies

Albersun Pipeline Ltd.
Calgary, Alberta
Natural gas pipeline operator in Alberta

Baron Petroleums Inc.
Toronto, Ontario
Retail gasoline distributor

Gow Fuels Inc.
Chelsea, Quebec
Heating oil and gasoline distributor

Les Huiles de Terrebonne Ltée.
Terrebonne, Quebec
Heating oil distributor

Maywelle Properties Ltd.
Toronto, Ontario
Real estate developer

Ouimet-Gobeille Inc.
Montreal, Quebec
Heating oil and gasoline distributor

SMS Petroleums Ltd.
Toronto, Ontario
Retail gasoline distributor

Sun-Canadian Pipe Line Company Limited
Waterdown, Ontario
Petroleum products pipeline operator in southern Ontario (55% owned)

Sun Explorations of Quebec Ltd.
Calgary, Alberta
Exploration in the Province of Quebec

Turbex Ltd.
Toronto, Ontario
Heating oil and gasoline distributor operating with various divisions in Ontario

Associated Companies in Canada

Great Canadian Oil Sands Limited
and its subsidiaries
Fort McMurray and Edmonton, Alberta
Toronto, Ontario
Production of synthetic crude oil from the Athabasca oil sands

Sperry-Sun of Canada Ltd.
Edmonton, Alberta
Well surveying and engineering services

Sunray DX Canada Oil Company

Sunray DX Northern Oil Co. Ltd.

Sunray DX Western Oil Co. Ltd.
Calgary, Alberta
Exploration and production in western Canada

Undeveloped Acreage December 31, 1975

	Gross*	Net**
British Columbia	179,400	113,000
Alberta	700,700	321,100
Saskatchewan	48,400	42,400
Yukon Territory	97,300	85,500
Mackenzie Delta/Beaufort Sea	1,780,800	478,400
Arctic Islands	33,967,600	12,065,700
Other Northwest Territories	797,500	104,700
Atlantic Offshore	30,504,900	3,196,300
	68,076,600	16,407,100

*Gross means the total acreage in which Sun has an interest.
**Net means acreage equivalent to Sun's interest after elimination of outside interests.

Daily Production by Province

	Crude Oil, Unprocessed Gas Liquids and Condensate (Barrels)		Raw Natural Gas (Thousands of Cubic Feet)	
	Gross*	Net**	Gross*	Net**
British Columbia	1,163	569	8,087	8,087
Alberta	7,537	4,645	32,433	21,097
Saskatchewan	4,891	4,085	1,352	1,143
Manitoba	550	483	—	—
	14,141	9,782	41,872	30,327

*Gross production means total production equivalent to Sun's interest.
**Net production means the quantity equivalent to Sun's working interest after deduction of Crown royalties and freehold and overriding royalty interests.

Sun's Manufacturing Record

(Barrels in thousands)	1975	1974
Crude refined at Sun refinery	30,397	25,333
Deduct: Crude refined for others	(12,282)	(9,033)
Crude refined by others in Canada for Sun	6,500	7,856
Crude refined — Sun account	24,615	24,156
Crude refined at Sun refinery as % of year-end capacity	97	81

Proven Reserves

	Gross*	Net**
Crude Oil (Millions of Barrels)	91	66
Natural Gas (Billions of Cubic Feet)	511	374

*Gross reserves means reserves equivalent to Sun's interest.
**Net reserves means reserves equivalent to Sun's interest after deduction of Crown royalties and freehold and overriding royalty interests.

Financial and Operating Summary

Financial	1975	1974	1973	1972	1971
			(Thousands of dollars)		
Revenues	315,577	270,805	141,569	116,219	102,810
Expenses	303,181	248,737	126,262	107,145	98,155
Profit before extraordinary item	12,396	22,068	15,307	9,074	4,655
Extraordinary item	—	2,205	5,562	5,059	1,369
Net profit for the year	12,396	24,273	20,869	14,133	6,024
Items not affecting working capital	30,108	31,701	16,558	11,615	11,301
Cash flow from operations	42,504	55,974	37,427	25,748	17,325
Shareholders' equity:					
Paid-in capital	188,245	188,245	155,580	142,580	129,320
Profits retained in the business	101,561	89,165	64,892	44,023	29,890
Capital expenditures:					
Exploration and production	44,198	35,952	15,097	23,985	60,610**
Marketing, refining and other	26,079	40,933	34,424	9,708	11,821
Salaries, wages and benefits	30,181*	19,723	15,351	13,183	11,268

Operating	1975	1974	1973	1972	1971
Net crude oil and condensate produced (barrels per day)	9,780	11,590	13,270	13,170	6,060
Net raw natural gas produced (millions of cubic feet per day)	27.5	33.8	35.6	38.3	19.7
Net undeveloped oil and gas acreage (millions of acres)	16.4	17.1	14.5	15.4	15.1
Crude refined at Sun refinery (barrels per day)	83,280	69,410	38,860	36,010	31,490
Sales of refined products (barrels per day)	70,300	65,150	44,850	41,840	39,010
Retail outlets (year-end)	1,170	1,150	1,160	1,240	1,200
Average number of employees	2,565*	2,203	1,620	1,306	958

* 1975 includes exploration and production employees transferred to the Company payroll after the 1974 merger with Sunoco E & P Limited.
**1971 purchases include $35,900,000 exploration and production properties, plant and equipment purchased from the parent company in consideration for the issue of Sun Oil Company Limited common shares.

Sun Oil Company Limited

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